Europe's common agricultural policy

European File

In all countries agriculture is a vital sector [1]:

- ☐ Its main purpose is to satisfy the basic and permanent consumer need for food. All farm policies aim to guarantee adequate and regular food supplies. Farming is at the mercy of the weather. Supply and demand rarely coincide and surpluses or shortages can easily arise. This clearly has a direct impact on the consumer. In the European Community people spend an average of 19% of their budget on food. It should be pointed out, however, that this percentage has fallen with the increase in the general standard of living in Europe. Food prices are also influenced by industrial and commercial input costs. It is now very rare for produce to be sold directly by the farmer to the consumer.

- ☐ Agriculture is the main source of income for many people whose alternative job prospects have been destroyed by the economic crisis. Consumer demand has been slowed by the stabilization of the population, which is now barely increasing. The incomes of the Community's 8.5 million farmers can therefore only be increased by technical progress and improved productivity.

Throughout the world public authorities have been obliged to intervene to support agricultural markets and improve production techniques. Consideration has to be given, at the same time, to specific social and economic problems and the interests of consumers. It is not surprising, therefore, that public spending on agriculture has reached about the same

[1] This file updates and replaces No 4/81.

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10/83
May 1983

level in both the United States and the European Community. Wherever one looks agriculture is a 'sensitive' sector, difficult to manage but politically important. The contribution which agriculture makes to national wealth and to exports is declining continuously but its vital role in preserving the countryside is increasingly acknowledged.

Green Europe — Why?

The founding treaty of the European Economic Community gives special attention to agriculture. When it was drawn up in 1957, the agricultural situation in the six founding States was very varied:

- ☐ The percentage of the workforce employed in this sector differed greatly from country to country, as did the contribution of agriculture to gross national product, productivity and its share of external trade.

- ☐ The agricultural policies of the Six were themselves very different, even conflicting. They had been developed to suit greatly varied natural and economic conditions from the south of Europe to the north. Depending on their overall economic outlook, some countries were liberal in their agricultural trade, others protectionist.

This diversity — destined to be multiplied with the enlargement of the Community — did not deter the authors of the Treaty of Rome from creating a common agricultural policy:

- ☐ It would have been, and remains, unthinkable to have a common market for industrial goods which excluded agriculture. The opening up of frontiers implies a balance of trade flows and economic benefits between Member States, some of which are more agricultural and others more industrial.

- ☐ The preservation of conflicting national agricultural policies would have made free trade in agricultural goods impossible. It would also have impeded the realization of other aims of the Treaty of Rome: the creation of a common market in industrial goods and services (including the food-processing industry), free competition and social progress. A common policy was no less necessary to promote the Community's other objectives: the convergence of the economies of Member States and the unification of the peoples of Europe.

A common agricultural policy was equally seen as an important step towards taking advantage of a continental-scale market for agricultural produce:

- ☐ For farmers, the Community-wide market means an opportunity to produce on a larger scale; to take advantage of the speedier dissemination of knowhow and technical advances; to try out new products; to specialize and develop a certain complementarity between Member States according to their natural advantages, such as soils and climate, or economic circumstances.

- ☐ For consumers, the Community-wide market means a wider variety of foodstuffs at a price made more attractive by large-scale production. Above all, a larger geographical unit offers the consumer stability of prices and supply, independent of a world market where low prices are often illusory. The world market consists of a margin of mainly surplus produce. It would not be possible to build a policy guaranteeing security of supply on such a fluid foundation.

To establish a common market in industrial goods, it was sufficient to dismantle internal customs barriers, to abolish non-tariff obstacles to trade, to introduce competition rules and to impose a common customs tariff at the Community's external frontier. For agriculture, the problem was far more complex. Agriculture has constraints peculiar to itself. Some are natural, such as the limits on productivity and the difficulties of shortening production cycles or switching to alternative products. Other constraints are social and economic, such as the rigidity of agricultural structures and the need to keep farmers on the land to prevent the depopulation of certain areas. These problems have obliged Community institutions and Member States to build a unique and detailed common policy, which is far more advanced than common European policies in any other field. This policy has had to adapt to the needs of an enlarged Community and to cope with the economic and budgetary restrictions imposed by the recession.

Principles and mechanisms

Article 39 of the Treaty of Rome lays down five fundamental and inalienable principles of the common agricultural policy: to increase productivity by promoting technical progress and the rational development of agricultural production, partly through an optimum use of resources, including labour; to ensure a fair standard of living for the agricultural community; to stabilize markets; to guarantee food supplies; to provide food for consumers at reasonable prices.

The different markets for agricultural products have been gradually organized to meet these objectives. Other factors taken into account have been the Community's position as the world's largest importer of agricultural produce and its determination to cooperate in the development of the Third World. Consideration has also been given to the need to develop less-favoured regions and to protect the environment and the consumer. The organization of markets has been based on three principles: the single market, Community preference and joint financial responsibility.

☐ The single market means a total liberalization of trade through abolition of customs duties and non-tariff barriers and the harmonization of the administrative, health and veterinary regulations which protect the consumer. It also means common rules of market management, common prices, identical competition laws and uniform protective arrangments at the Community's external frontiers. Although applied uniformly throughout the Community, market management rules vary according to the characteristics of different products. Four main types of market organization exist in the Community, covering more than 95% of agricultural production.

- About 72% of products (including soft wheat, barley, rye, maize, rice, sugar, dairy products, beef, sheepmeat, pork, some fruits and vegetables and some table wine) enjoy support prices which carry either a permanent or conditional guarantee of price and sale. When market prices fall below a certain level and other conditions are fulfilled, the intervention authorities buy up the produce offered to them and stock or sell it according to Community rules. The market can also be supported by more flexible means, such as storage aids, subsidies for distillation of wine and the buying-in of surpluses by producer organizations.

- About 25% of production (eggs, poultry, some cereals, some wine, fruit and vegetables) are protected only by measures to prevent low-price imports from outside the Community.

- Direct subsidies apply to only 2.5% of production (hard wheat, olive oil, certain other oils and tobacco). This system is used for products predominantly imported by the Community. It helps to keep prices down for the consumer but guarantees a minimum income for the producer.

- Flat rate aid by hectare or quantity produced covers only 0.5% of production (cotton seed, flax, hemp, hops, silk worms, seeds and dehydrated fodder).

To allow these mechanisms to operate uniformly, common guaranteed prices for all the member countries are fixed each year by the Community's institutions. Monetary instability since 1969 has led to the introduction of 'monetary compensatory amounts' to compensate farmers in a number of member countries for the effect on common prices of fluctuations in national currencies. This system has rescued the common price apparatus by softening the impact of monetary changes but a prolonged use could distort competition.

☐ Community preference is an indispensable corollary to the single market. Protection of the European market against low-priced imports and fluctuations on the world market is achieved by variable customs duties and/or levies which act as a 'sluice gate' at Community frontiers. In some cases this protection applies for only part of the year. The levy apparatus works as follows: if the prices of imported products are lower than those in the Community, a levy is imposed to close the gap between the two prices. Free access is maintained without distorting competition in the common market. If, on the other hand world prices are higher than those in the Ten, an export levy is imposed to discourage Community producers from exporting to the detriment of Community consumers.

☐ Joint financial responsibility arises logically from the two preceding principles. In practice it means that all common agriculture policy spending and receipts throughout the Ten are directly accounted for in the Community budget. Expenditure is channelled through the two sections of the European Agricultural Guidance and Guarantee Fund (EAGGF):

- The Guarantee Section finances all public expenditure arising from the common organization of the market. This, also, breaks down into two sections. Expenditure on the internal market, amounting to about 7 100 million ECU in 1982, [1] covers purchases by intervention boards, storage costs, income aids and marketing subsidies. Expenditure on external sales, about 6 200 million ECU in 1982, covers the export rebates which bridge the gap between Community and world prices.

- The Guidance Section helps to finance Community policy on agricultural structures, mainly through funding projects involving the improvement of farms, rural facilities, processing and marketing. Since 1981 increased priority has been given to improving productivity, balancing markets and reducing regional disparities. A variety of programmes have been introduced for lesser favoured regions in all Member States. These include mountainous and hilly areas, where it is vital to keep a certain number of farmers on the land, as well as parts of the Mediterranean regions which face increased competition through the Community's enlargement to the south. The programmes include training schemes for farmers, aids to drainage, irrigation and afforestation, the improvement of product quality and incentives to switch to alternative crops, especially in wine-growing areas. These aids have a five yearly budget of 3 800 million ECU. They cover between 25% and 60% of the cost of a project, with the remainder funded by the national authorities.

In addition, the European Investment Bank and the European Regional Development Fund supply, respectively, loans and grants for the improvement of rural infrastructure, including irrigation, drainage, road and electricity projects and the development of tourism, processing industries and small and medium-sized businesses. Extra national aids to farmers are also permitted, so long as they do not encroach on the common organization of prices and markets. The economic crisis has increased the tendency of governments to try to bail out their farmers. The European Commission is careful to ensure that national aids do not distort competition and break the rules of the common market.

Results

☐ Taking the five objectives of the common agricultural policy, one by one, it can be seen first of all that productivity has increased rapidly. From 1968 to 1973 production increased by 6.7% each year and by 2.5% a year thereafter. This advance is the result partly of technical improvements but also the rationalization of farms and the reduction in the number of farmers, rapidly at first, then more slowly as other jobs became scarce. Since 1960 the number of farmers in the Community has fallen by 55%;

☐ Between 1968 and 1979, agricultural incomes increased by about 3% a year, broadly in parallel with other incomes. During the economic crisis from 1979 to 1981, farm incomes fell but recovered in 1982. There are still vast differences in income between types of farming, sizes of holdings and different regions.

[1] One ECU (European Currency Unit) = about £0.60, Ir. £0.71 or US $0.93 (at exchange rates current on 15 April 1983).

- ☐ Security of supply has been unbroken. Europe has not suffered any food shortages, even though self-sufficiency has not been achieved in all areas. The Community is the world's largest food importer and can therefore hardly be described as protectionist. It imports large quantities of animal feed and tropical produce. The regularity of supply, both in quantity and price, has as much to do with third country trade as internal production.

- ☐ Reasonable consumer prices have been maintained for most products. Since 1973 farm-gate prices have increased less than food prices in the shops and less than prices as a whole. European agriculture has made a not inconsiderable contribution to the fight against inflation.

- ☐ Market stability has also been accomplished. Europe has been sheltered from periodic booms in sugar prices and the sharp rise in cereal prices in 1974-75. On the other hand, surpluses have accumulated in certain sectors. It has been necessary to dispose of these by costly and sometimes controversial methods, such as subsidizing exports, denaturing and social handouts. Some surpluses are periodic and result from the uncertainty of farming and its dependance on natural conditions. Other surpluses are more serious. They are structural surpluses, in other words massive and permanent. Each year the EAGGF finances the storage and dispersal of increasingly large quantities of surplus dairy products. Sugar output now far outstrips internal consumption. It should be pointed out, however, that in these sectors the management of the common agricultural policy is severely limited in various ways. Milk production is a vital source of income to many small farmers, especially in mountainous areas. Butter faces competition from margarine manufactured from cheap imported products but the Community has no global policy on the supply of oils and fats. The Community imports 1.3 million tonnes of cane sugar a year as part of its Third World cooperation policy.

But what is the cost of Green Europe? Agricultural expenditure in the Community represents less than 0.5% of the gross domestic product of member countries and 2.5% of consumer expenditure on food. It accounts for about two thirds of the entire Community budget. This may appear disproportionate but there is a simple explanation. European integration has gone furthest in the agricultural sector. In other sectors, the main burden of expenditure is still carried by national budgets.

Guidelines for the future

The Community's total financial resources are limited. At the end of 1981, the Commission pointed out in its communication on 'orientations for European agriculture' [1] that the growth in agricultural production and spending necessitated a prudent pricing policy, especially since Europe now supplies most of its own food needs and is even running into surplus. But the communication also calls for a strengthening of the Community's work on agricultural structures.

[1] See *European File* No 4/82: 'Relauching Europe: Agricultural policy, target 1988'.

- The search for market balance should allow, within the existing budget ceiling, a periodic review of price levels as well as an improvement of terms for Mediterranean agriculture. To this end, efforts must be continued to reduce permanent surpluses. A number of measures have already been taken to improve the balance of the market for dairy products, sugar, wine, cereals and rape-seed. It is becoming increasingly difficult to give an absolute guaranteee of a set level of aid or prices for an unlimited quantity of produce. Community financial responsibility must be restricted, whilst respecting the principles of the common agricultural policy which control the operation of the common market for agricultural and industrial goods and therefore the very existence of the Community. This means that farmers must take over the financial responsibility for disposing of surpluses beyond a certain production threshold. This principle of financial co-responsibility is already applied to dairy, sugar, cereals and rape-seed producers. At the same time, the Community intends to expand its exports and food aid to the Third World and stabilize imports of cereal substitutes for animal feed, whilst respecting its international obligations.

- Price policy alone cannot guarantee a reasonable income to farmers and guarantee the survival of an adequate agricultural sector. The Community, as it enlarges to the south, must therefore strive to specialize its agricultural production to exploit natural advantages. It must encourage quality produce and strengthen its socio-structural policy to speed up the modernization of farms, reduce income disparities and and encourage the development of problem regions. The difficulties of these regions cannot be solved through agricultural development alone. This is why the Community has introduced a wide range of structural programmes. It is, for instance about to launch integrated development programmes for rural areas in the Mediterranean region, including measures to improve agriculture, but also projects involving infrastructure, fishing, energy, employment, tourism, small and medium-sized enterprises, etc. ■

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Office for Official Publications
of the European Communities
L-2985 Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-83-010-EN-C